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RHFMIS/AFSOUTH NAPLES IT PRIORITY

RHMFISS/CDR TF FALCON PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/SECDEF WASHINGTON DC PRIORITY

RUEPGEA/CDR650THMIGP SHAPE BE PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

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KV, YI

SUBJECT: KOSOVO: GOK STILL LOOKING FOR CEFTA BENEFITS

REF: PODGORICA 92

Classified By: AMBASSADOR TINA S. KAIDANOW FOR REASONS 1.4 (B) AND (D)

¶1. (C) SUMMARY: Since independence was declared in 2008, Kosovo has struggled to find its voice on the international stage. The Government of Kosovo's (GOK) strong desire to shed the shackles of UNMIK in all realms has been particularly frustrating in organizations where Kosovo is represented by UNMIK, such as the Central European Free Trade Association (CEFTA). Despite statements by some members of the GOK in recent months expressing a desire to participate in CEFTA as a sovereign nation minus UNMIK, the fact remains that Kosovo is not an official party to the agreement and cannot be an effective member without UNMIK. While Kosovo is responsible for the substance and technical work, UNMIK remains the official recipient of all invitations to CEFTA meetings and is the only authorized signatory to CEFTA agreements. The failure of the European Commission (EC) Liaison Office and the CEFTA Chair to successfully address Serbia's and Bosnia's non-acceptance of Kosovo customs stamps has also exacerbated the GOK's frustration with the current arrangement. GOK officials agree that Kosovo's inclusion within CEFTA is important, but finding a workable balance between the government's desire to project unqualified sovereignty in all realms with meaningful participation in the organization will be a challenge. END SUMMARY.

REALITIES OF CEFTA MEMBERSHIP

¶2. (C) Through UNMIK, Kosovo became a member of CEFTA, a free trade agreement between non-European Union (EU) countries in central and southeast Europe, in 2007. While eager to highlight the country's membership in the organization, Kosovo has struggled to carve out an independent role for itself within CEFTA. Since independence, the GOK has increasingly sought to minimize UNMIK's involvement in any aspect of Kosovo's affairs, including UNMIK's role as a facilitator for Kosovo in international fora. Since UNMIK is the official party to CEFTA, Kosovo is not directly invited to official meetings, cannot sign CEFTA agreements or send official notifications to members. Recognizing that Kosovo needs to take as much of a leading role as possible, UNMIK does not attend any CEFTA meetings unless the GOK also sends a representative. Kris-Pierre Litiere, Acting Head of Economic Affairs at UNMIK, unequivocally stated that UNMIK only sends representatives to facilitate Kosovo's participation and emphasized that Kosovo is responsible for

all the substantive and technical work on CEFTA.

¶3. (C) Nevertheless, the legal realities that require UNMIK to facilitate even basic participation in CEFTA have been difficult for the GOK to manage. Kosovo officials tell US Embassy Pristina (USEP) that they have a good working relationship with their CEFTA counterparts at the technical level, but they chafe at the fact that an UNMIK representative must be present at meetings, and on the insistence that UNMIK be identified on the Kosovo nameplate. This sentiment was unfortunately manifested in April when the Kosovo delegation walked out of a CEFTA sub-committee meeting on agriculture held in Montenegro over the use of &UNMIK& on Kosovo's namecard (see reftel). At the end of May, Kosovo failed to send anyone at all to a CEFTA Deputy Prime Minister's meeting. Deputy Prime Minister Hajredin Kuci flatly told USEP that he does not want to see &UNMIK& and &Kosovo& together on any placard, stressing that UNMIK representatives should do nothing more than sit in the room during meetings and not sign any decisions (Note: To date UNMIK has not attempted to take any action, nor has it indicated it would ever do so without the express consent of the GOK. End note.).

NO CUSTOMS STAMP RESOLUTION

¶4. (C) The GOK's actions are in part fueled by frustration over CEFTA's inability or unwillingness to resolve Kosovo-related problems. After Kosovo Customs introduced new customs stamps last December, Serbia implemented a blockade on all goods marked with the Kosovo stamp and Bosnia started levying duties on Kosovo products that should be allowed to enter duty-free. Encouraged to utilize CEFTA to work out these problems, the GOK sent a letter to the CEFTA Chair

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notifying him of these member transgressions. The Chair quickly responded that no action could be taken unless the letter came from the official party to the agreement. After lengthy discussions and considerable persuasion from the European Commission Liaison Office and UNMIK, the GOK agreed to allow changes to the customs stamps to make them more neutral. They also agreed to have UNMIK send a letter on behalf of Kosovo, per CEFTA instructions, notifying all CEFTA members of the new UN Resolution 1244-compliant customs stamps.

¶5. (C) The notification was sent in May and over one month later, Bosnia and Serbia are still levying duties and blocking Kosovo goods. The CEFTA Chair has yet to call a discussion about the issue and does not appear to have addressed it with either Bosnia or Serbia. Minister of Trade and Industry Lutfi Zharku, who has publicly stated on more than one occasion that Kosovo should not participate in CEFTA through UNMIK representation, told USEP that the GOK is disillusioned with CEFTA. While acknowledging that CEFTA is very important for Kosovo, Zharku expressed disappointment with the CEFTA Chair for not resolving the agreement violations or even calling a discussion of the issue, particularly after the GOK acquiesced to UMMIK stepping in to fulfill CEFTA notification requirements to the letter. In a June meeting in Brussels with European Commissioner for Enlargement Olli Rehn, Zharku said he raised the issue of Bosnia's and Serbia's refusal to recognize Kosovo customs stamps. He said Rehn seemed "surprised" to hear that the customs stamp issue had not yet been resolved, but he did not offer any solutions. Zharku said that the EC has continually taken a soft approach toward Serbia and Bosnia, leaving the GOK feeling exposed to considerable political criticism at home for not achieving any results.

MORE FOCUS IS NEEDED

¶6. (C) The head of Kosovo Customs, Naim Huruglica, told USEP that the GOK lacks a coordinated approach on CEFTA. While Huruglica does not think Kosovo should leave CEFTA, he also pointed out that there has been no result from the assistance of UNMIK or the EC in resolving the customs stamp issue. The GOK also lacks expertise and the resources for dealing effectively with CEFTA. The Ministry of Trade and Industry has one full-time person dedicated to tariffs and non-tariff barriers, one of the three CEFTA sub-committees, as well as

customs issues and agriculture. Tapped to work on CEFTA issues last September, Sytrime Dervisholli echoed Huruglica's concerns. From Dervisholli's point of view, there are simply not enough staff working on CEFTA, and the Ministry of Agriculture and Customs do not even have full-time personnel working on their respective sub-committee issues. As a result, coordination within the GOK on CEFTA is difficult and haphazard, with few officials understanding what CEFTA is about or how it should be implemented. Dervisholli also stressed the importance of CEFTA for facilitating Kosovo's regional integration, and for granting Kosovo citizens the ability to compare their economic development with neighboring countries. Local businesses need to improve product quality and consistency in order to compete with other countries, says Dervisholli, and CEFTA will facilitate this growth.

¶7. (C) Agim Shahini, head of the Alliance for Kosovo Businesses, told USEP that Kosovo's membership in CEFTA is worth all of the political headaches. Membership in CEFTA, even through UNMIK, keeps Kosovo on the map, which might even be more important than the export opportunities, says Shahini. In reality, very few local companies are in a position to export right now, and the lack of a coordinated GOK approach on CEFTA has not helped. From Shahini's perspective, the GOK should be more pragmatic and use UNMIK as a tool to gain representation on the international stage. UNMIK gives Kosovo a platform and a voice in areas where Kosovo's sovereignty is not yet acknowledged; using UNMIK to be a participant is better than being invisible. In order to resolve Kosovo's difficulties with CEFTA, Shahini urged the GOK to work with UNMIK to put pressure on Brussels to find a solution.

TIME RUNNING OUT

¶8. (C) Changing the agreement in order to allow Kosovo to

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become an official party would require ratification by all members. Full ratification is not currently possible with Bosnia, Moldova and Serbia remaining as non-recognizing members, forcing Kosovo to continue to accept UNMIK as a facilitator if it wants to remain part of CEFTA. Two events on the horizon will force more discussion about Kosovo's unique status within CEFTA. One is the finalization of an annex of goods eligible for trade under CEFTA that will require the signature of all members in order to take effect.

While Kosovo could, in theory, authorize UNMIK to sign on its behalf as the official party, it is difficult to envision a situation where this would be politically acceptable or even recommended, given the pending case before the International Court of Justice on Kosovo's declaration of independence. Minister of Trade Zharku suggested that a dual-signature option could be acceptable to the GOK, and UNMIK said they are exploring options with their legal office. The second action forcing event is that the CEFTA Chair will pass to Serbia in 2010. Given the level of sensitivity the GOK has so far displayed with having "UNMIK" and "Kosovo" mentioned together, this tension is bound to be amplified next year if a solution for the customs stamp or the name issue has not been resolved in a manner that is acceptable to all members before then. There would also be the matter of ensuring Kosovo is physically able to participate in meetings held in Serbia. As UNMIK has said it will not attend a meeting without a GOK representative, lack of quorum may cause serious damage to the ability of CEFTA to function as an institution.

¶9. (C) COMMENT: The Ministry of Trade says that at least two external advisors, funded by the EC, will be on board this fall to work on CEFTA and World Trade Organization issues. While this is a good start toward getting the GOK more focused on the larger CEFTA picture, Kosovo and CEFTA do not seem to be any closer to resolving the more immediate problems. USEP is pleased that the GOK has been in discussion with the EC on how to proceed, but the EC's soft approach risks that Kosovo will be marginalized from CEFTA all together. The EC should be more pro-active and insistent in promoting acceptance of Kosovo's customs stamps and

clarifying Kosovo's representation in CEFTA. Both Belgrade and Pristina should also be urged to take a more practical approach on CEFTA. USEP will continue to encourage the GOK to work with its international partners to find acceptable solutions. END COMMENT.

KAIDANOW